

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

☒ Quarterly report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the period ended September 30, 2002.

☐ Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

T.Z.F. INTERNATIONAL INVESTMENTS, INC.
(Exact name of registrant as specified in its charter)

Nevada	0-31353	88-0404186
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

Unit 1, 3071 No. 5 Road Richmond, B.C., Canada	V6X 2T4
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (604) 718-2188

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Applicable only to issuers involved in bankruptcy proceedings during the past five years.

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

Applicable only to corporate issuers

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: At September 30, 2002, there were 30,098,505 shares outstanding.

Transitional Small Business Disclosure Format (Check one): Yes No ..X..

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND EXHIBITS

(a) The unaudited financial statements of registrant for the nine months ended September 30, 2002, follow. The financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim period presented.

T.Z.F. INTERNATIONAL INVESTMENTS, INC.
(A Development Stage Company)

FINANCIAL STATEMENTS

Quarter Ended September 30, 2002

INDEX TO FINANCIAL STATEMENTS:

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Retained Earnings (Deficit)

Consolidated Statements of Cash Flows

Schedule of Fixed Assets/Intangible Assets

Consolidated Statement of Changes in Stockholders' Equity

Notes to Consolidated Financial Statements

T.Z.F. INTERNATIONAL INVESTMENTS, INC.

(A Nevada Corporation)

Consolidated Balance Sheets

September 30, 2002 and September 30, 2001

(In US Dollars)

(Unaudited)

	<u>2002</u>	<u>2001</u>
Assets		
Cash and cash equivalents (note 3)	\$ 473,513	\$ 1,131,049
Accounts receivable (note 4)	5,109,202	5,230,438
Prepaid expenses and deposits (note 5)	1,587,719	493,298
Subscriptions receivable (note 6)	--	406,434
Short-term investment - secured	--	2,530,348
Inventories, at lower cost or market (note 7)	<u>1,556,108</u>	<u>2,276,709</u>
TOTAL CURRENT ASSETS	<u>8,726,542</u>	<u>12,068,276</u>
 Fixed assets - Schedule A	 7,219,885	 6,454,576
 Intangible Assets - Schedule A	 636,051	 4,138,789
 Goodwill, at cost	 1,206,554	 1,161,308
 TOTAL ASSETS (Pledged as security for bank loans - Note 17)	 <u>\$ 17,789,032</u>	 <u>\$ 23,822,949</u>
 Liabilities and Stockholders' Equity		
Current liabilities		
Bank loans - secured (note 17)	\$ 1,639,661	\$ 1,968,561
Accounts payable and accrued (note 14)	3,700,012	3,028,125
Payable on acquisition of Shenzhen Tianzhifu Network Technology Ltd. (note 1)	--	518,590
Loans from related parties, unsecured, non interest bearing, with no specific terms of repayment (note 16(b))	<u>537,479</u>	<u>429,058</u>
TOTAL CURRENT LIABILITIES	<u>5,877,152</u>	<u>5,944,334</u>
 Long-term debt (note 18)	 177,509	 269,353
Deferred liabilities - pensions (note 23)	<u>212,562</u>	<u>212,562</u>
	<u>390,071</u>	<u>481,915</u>
Minority interest	<u>--</u>	<u>138,941</u>
Stockholders' Equity		
Capital stock (note 19)		
Authorized		
100,000,000 common shares at \$0.0001 par value		

Issued		
30,098,505 common shares (2001 - 35,897,309 shares) - par value	3,550	3,590
Paid in capital in excess of par value of stock	11,709,559	15,403,889
Retained earnings (deficit)	(189,667)	1,849,507
Cumulative translation adjustment (note 2)	(1,633)	773
	<u>11,521,809</u>	<u>17,257,759</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 17,789,032	\$ 23,822,949
	<u><u> </u></u>	<u><u> </u></u>

"Xin Chen" Director, Chief Executive Officer

"Ruiron Zhang" Director, Chief Financial Officer

See Accompanying Notes and Independent Accountants' Review Report

T.Z.F. INTERNATIONAL INVESTMENTS, INC.
(A Nevada Corporation)
Consolidated Statements of Operations
(In US Dollars)
(Unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenue				
Sales	\$ 842,645	\$ 3,037,899	\$ 2,914,314	\$ 9,135,822
Cost of sales	521,738	2,217,703	1,747,344	6,432,281
	320,907	820,196	1,166,970	2,703,541
Other income (expense)	3,823	38,987	(2,716)	299,233
	324,730	859,183	1,164,254	3,002,774
Expenses				
Selling expenses	181,303	148,176	477,425	317,164
Administration Costs	248,548	10,438	541,958	651,779
Depreciation and amortization	87,612	60,637	337,546	175,425
Loss on disposition of capital assets	26,994		26,994	
Bad debts		--	601,408	--
	544,457	219,251	1,985,331	1,144,368
Profit (loss) before income taxes	(219,727)	639,932	(821,077)	1,858,406
Income taxes	3,558	134,925	5,497	346,478
	(223,285)	505,007	(826,574)	1,511,928
Minority interest	--	30,261	--	66,390
Net profit (loss) for the period	\$ (223,285)	\$ 474,746	\$ (826,574)	\$ 1,445,538
Basic profit (loss) per share	\$ (0.01)	\$ 0.01	\$ (0.03)	\$ 0.04
Diluted profit (loss) per share	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.03
Weighted average number of common shares used to compute profit per share				
Basic	30,098,505	35,897,309	30,098,505	35,897,309
Diluted	40,388,512	48,665,620	40,388,512	48,665,620

See accompanying notes and Independent Accountants' Review Report

T.Z.F. INTERNATIONAL INVESTMENTS, INC.
(A Nevada Corporation)
Consolidated Statements of Retained Earnings (Deficit)
(In US Dollars)
(Unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Retained earnings (deficit),				
beginning of period	\$ 33,618	\$ 1,374,761	\$ 636,907	\$ 403,969
Net profit (loss) for the period	(223,285)	474,746	(826,574)	1,445,538
Retained earnings (deficit),				
end of period	<u>\$ (189,667)</u>	<u>\$ 1,849,507</u>	<u>\$ (189,667)</u>	<u>\$ 1,849,507</u>

See accompanying notes and Independent Accountants' Review Report

T.Z.F. INTERNATIONAL INVESTMENTS, INC.
(A Nevada Corporation)
Consolidated Statements of Cash Flows
(In US Dollars)
(Unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Cash derived from (used for)				
Operating activities				
Net profit (loss) for the period	\$ (223,285)	\$ 474,746	\$ (826,574)	\$ 1,445,538
Items not requiring use of cash				
Depreciation and amortization	87,612	60,637	337,546	175,425
Minority interest		30,261	--	138,941
Cumulative translation adjustment	(6,620)	(3,406)	(6,620)	(3,610)
Changes in non-cash working capital items				
Accounts receivable	(1,642,517)	384,572	(1,039,392)	(25,461)
Prepaid expenses and deposits	114,956	(272,146)	505,706	(458,614)
Inventories	223,634	(91,615)	433,763	(1,032,067)
Accounts payable and accrued	1,347,003	244,753	1,387,692	277,695
	<u>(99,217)</u>	<u>827,802</u>	<u>792,121</u>	<u>517,847</u>
Financing activities				
Capital contributed	354,440	--	354,440	177,946
Management fees payable	--	(224,538)	--	(150,004)
Bank loans	604,595	50,786	(145,103)	389,359
Long-term debt	(36,699)	(26,046)	(91,481)	(36,785)
Loans from related parties	(23,073)	(85,995)	228,878	(85,995)
	<u>899,263</u>	<u>(285,793)</u>	<u>346,734</u>	<u>294,521</u>
Investing activities				
Fixed assets acquired	(585,724)	(66,938)	(1,102,751)	(708,140)
Intangible assets	--	2,042	--	2,121
Investment in Hongkong	--	--	--	532,044
Short-term investment	--	(979,674)	--	(1,176,055)
	<u>(585,724)</u>	<u>(1,044,570)</u>	<u>(1,102,751)</u>	<u>(1,350,030)</u>
Cash, increase (decrease)				
during the period	214,322	(502,561)	36,104	(537,662)
Cash, beginning of period	259,191	1,633,610	437,409	1,668,711
Cash, end of period	<u>\$ 473,513</u>	<u>\$ 1,131,049</u>	<u>\$ 473,513</u>	<u>\$ 1,131,049</u>

See accompanying notes and Independent Accountants' Review Report

T.Z.F. INTERNATIONAL INVESTMENTS, INC.
(A Nevada Corporation)
Schedule of Fixed Assets/Intangible Assets
As at September 30, 2002
(In US Dollars)
(Unaudited)

Schedule A

	Cost	Accumulated Depreciation	Net
Fixed Assets			
Deferred expenses - other - TZF Jiangsu	574,909	34,462	540,447
Fixed assets of operating companies			
- note 8	4,224,206	1,063,808	3,160,398
- note 9	399,733	--	399,733
Construction in progress - Note 10	1,522,756	--	1,522,756
Rights of use of land			
Tianan - 50 years	370,508	13,899	356,609
TZF Jiangsu - 50 years (1)	1,239,942	--	1,239,942
	<u>\$ 8,332,054</u>	<u>\$ 1,112,169</u>	<u>\$ 7,219,885</u>
Intangible Assets			
Technology rights - Note 13		\$ 554,358	
Deferred costs - Note 12		<u>81,693</u>	
		<u>\$ 636,051</u>	

(1) To be amortized commencing when certificate of completion of building is received in 2002.

See accompanying Notes and Independent Accountants' Review Report

T.Z.F. INTERNATIONAL INVESTMENTS, INC.
(A Nevada Corporation)
Consolidated Statement of Changes in Stockholders' Equity
From Date of Inception on September 15, 1998 to September 30, 2002
(In U.S. Dollars)
(Unaudited)

	Number of Common Shares	par Value	Additional Paid-in Capital	Total Capital Stock	Retained Earnings (Deficit)	Cumulative Translation Adjustment	Total Stockholders' Equity
9/25/98 issuance of common stock for cash	1,000,000	\$1,000	\$1,500	\$2,500			\$2,500
Net loss for the year ended December 31, 1998					(1,115)		(1,115)
Balance, December 31, 1998	1,000,000	1,000	1,500	2,500	(1,115)		1,385
2/17/99 issuance of common stock for cash	600,000	600	59,400	60,000			60,000
Net loss for the year ended December 31, 1999					(7,515)		(7,515)
Balance, December 31, 1999	1,600,000	1,600	60,900	62,500	(8,630)		53,870
4/30/00 cancellation of common stock and transfer of par value to paid-in capital (note 1)	(1,000,000)	(1,000)	1,000				
Balance, April 30, 2000 before forward split	600,000	600	61,900	62,500	(8,630)		53,870
05/15/00 10 to 1 forward split	6,000,000	600	61,900	62,500	(8,630)		53,870
05/15/00 issuance of common stock for services	250,000	25	252,375	252,400			252,400
05/15/00 issuance of common stocks for the BC Company	18,451,843	1,845	5,351,087	5,352,932			5,352,932
7/4/00 issuance of common stock for cash	340,000	34	343,216	343,250			343,250
9/30/00 issuance of common stock for cash	615,466	62	621,286	621,348			621,348
10/19/00 issuance of common stock for cash	10,000	1	10,999	11,000			11,000
11/19/00 issuance of common stock for cash	230,000	23	252,977	253,000			253,000
12/28/00 issuance of common stock for debt	10,000,000	1,000	4,999,000	5,000,000			5,000,000
Net profit for the year ended December 31, 2000					412,599		412,599
Negative goodwill - gain on acquisition TZF Jiangsu - note 1			3,333,103	3,333,103			3,333,103
Cumulative translation						4,383	4,383
Balance, December 31, 2000	35,897,309	3,590	15,225,943	15,229,533	403,969	4,383	15,637,885
1/1/01 capital contributed			177,946	177,946			177,946
12/31/01 capital contribution adjustment			(158,505)	(158,505)			(158,505)
12/31/01 cancellation of common stock	(398,804)	(40)	(406,394)	(406,434)			(406,434)
Net profit for year ended December 31, 2001					232,938		232,938
Cumulative translation						604	604
Balance, December 31, 2001	35,498,505	3,550	14,838,990	14,842,540	636,907	4,987	15,484,434

9/30/02 capital contribution adjustment			354,440	354,440			354,440
7/14/02 cancellation of common stock	(5,400,000)	(540)	(3,483,331)	(3,483,871)			(3,483,871)
Net profit (loss) for nine months ended September 30, 2002					(826,574)		(826,574)
Cumulative translation						(6,620)	(6,620)
Balance, September 30, 2002	30,098,505	\$3,010	\$11,710,099	\$11,713,109	\$(189,667)	\$(1,633)	\$11,521,809

See Accompanying Notes and Independent Accountants' Review Report

T.Z.F. INTERNATIONAL INVESTMENTS, INC.
(a Nevada Corporation)
Notes to Consolidated Financial Statements
September 30, 2002
(In U.S. Dollars)
(Unaudited)

Note 1. ORGANIZATION AND NATURE OF BUSINESS

The Company was incorporated under the laws of the State of Nevada on September 15, 1998, as Sabai Sabai Enterprises, Corp., and on May 25, 2000, changed its name to T.Z.F. International Investments, Inc.

Pursuant to a stock purchase agreement dated March 30, 2000, T.Z.F. International Herbs Investment Inc., ("BC Company") purchased 1,000,000 shares of the issued and outstanding common stock of the Company. These shares were purchased in anticipation of the subsequent completion of a share exchange transaction between the Company and the BC Company. In conjunction with completion of the share exchange transaction these shares were cancelled, effective April 30, 2000, and as a result, the amount of the par value of \$1,000 attributable to such shares was transferred to paid-in capital.

Pursuant to the terms of the share exchange which was effective as of April 30, 2000, the Company acquired all of the issued and outstanding stock of the BC Company in exchange for the issuance of 18,451,843 shares of its authorized but previously unissued shares of common stock, which shares were valued at \$5,352,932 for purposes of the acquisition. Assets and liabilities of the BC Company at the date of acquisition on April 30, 2000, were as follows:

Assets

Cash and short term deposits	\$1,040,372
Accounts receivable	13,217
Capital stock subscriptions receivable	374,546
Prepaid expense and deposit	5,382
Inventories	206,532
Deferred lease expense, net of amortization	5,047
Fixed assets, net of accumulated depreciation	59,927
Intangible assets, technology rights	<u>4,038,229</u>
	<u>5,743,252</u>

Liabilities

Accounts payable and accrued	114,917
Accrued payroll deductions payable	45,767
Management fees payable	168,205
Due to related parties	<u>60,755</u>
	<u>389,644</u>
Net assets including cumulative translation	5,353,608
Cumulative translation, included in above, Booked in stockholders' equity of Sabai Sabai	(676)
Net value in exchange for 18,451,843 common Shares off Sabai Sabai and net equity on date of acquisition of the BC Company	<u>\$5,352,932</u>

In May 2000, the Company completed a 10:1 forward split of its outstanding stock. This forward split increased the number of issued and outstanding shares from 600,000 (1,600,000 previously outstanding less the 1,000,000 shares which were cancelled) to 6,000,000.

Subsequent to completion of the share exchange on April 30, 2000, the BC Company (the Company's wholly-owned subsidiary) received subscriptions for 340,000 additional shares. The Company elected to convert such shares to shares of its own common stock on the same terms as it completed the share exchange. Therefore, effective as of July 4, 2000 the Company issued 340,000 additional shares in exchange for shares of the BC Company

In May 2000, following completion of the forward split, the Company authorized the issuance of 250,000 restricted shares as compensation for consulting services at a price of CAD\$1.50 per share, to the following:

<u>Name</u>	<u>Number of Shares</u>	<u>Consideration CAD \$</u>	<u>Equivalent US \$</u>
Robert Gelfand	50,000	\$75,000	\$50,480
Fred Fisher	<u>200,000</u>	<u>300,000</u>	<u>201,920</u>
	<u>250,000</u>	<u>\$ 375,000</u>	<u>\$ 252,400</u>

Accordingly, the amount of \$252,400 was recorded as stock-based compensation in the financial statements for the year ended December 31, 2000.

T.Z.F. International Herbs Investment Inc., which is now a wholly-owned subsidiary of the Company, owns the formula and all distribution and intellectual property rights, including trademark, patent and industry design rights, for Snow Lotus Tea products.

The Company and its wholly-owned subsidiary, the BC Company, are both based in Vancouver, British Columbia, Canada.

On December 21, 2000 the BC Company acquired 100% of issued and outstanding shares of Tianan Investment Limited (“Tianan”), a British Virgin Islands company with an office in Hong Kong for the total price of HK\$21,500,000 (US\$2,758,847), which was paid in cash in three installments. The BC Company paid the first installment totaling HK \$6,638,318.09 (approximately US \$851,100) in two parts, on July 7 and July 10, 2000. The second installment of HK \$6,261,681.91 (approximately US \$802,800), and the final installment of HK\$8,600,000.00 (approximately US \$1,104,947), which were paid on October 20, 2000 and December 20, 2000, respectively, were both paid by Xin Chen, one of the principal shareholders.

The sole asset of Tianan is its 100% ownership of Tianan Pharmacy (Xiamen) Co., Ltd. (“Tianan Pharmacy”), a manufacturer of Chinese biological and herbal medicine products. Tianan Pharmacy has a plant which is located in the Torch High Tech Development Zone of Xiamen, China, where it currently conducts research and development and produces herbal and biological medicines which it distributes and sells in China.

As a result of the closing of this purchase transaction, Tianan became a wholly-owned subsidiary.

Assets and liabilities of Tianan at the date of acquisition on December 21, 2000, were as follows:

Assets

Cash and cash equivalents	\$ 103,910
Accounts receivable, trade	198,910
Short-term loans	831,875
Prepaid expense and deposit	5,069
Inventories	449,147
Deferred expense, net of amortization	27,957

Fixed assets, net of accumulated depreciation	1,405,851
Rights of use of land - 50 years	<u>370,508</u>
	<u>3,393,227</u>
Liabilities	
Accounts payable, trade	9,921
Accounts payable, others	42,176
Taxes payable	33,222
Deferred liabilities, pension	212,562
Bank loan	<u>483,676</u>
	<u>781,557</u>
Net assets	2,611,670
Goodwill on acquisition	<u>147,177</u>
Total cash payments on acquisition	<u>\$2,758,847</u>

On December 31, 2000, the BC Company completed the purchase of all of the shares of T.Z.F. International Herbs (Jiangsu) Co. Ltd. ("TZF Jiangsu") (formerly Second Pharmacy Factory of Yancheng City), ("Second Pharmacy"), a Chinese corporation. The assets were purchased from The People's Government of JianWu County, JiangSu Province, the People's Republic of China. The purchase was completed pursuant to the terms of an Acquisition and Investment Agreement dated September 12, 2000.

In accordance with the Acquisition and Investment Agreement, the purchase price was a total of RMB14,000,000.00 (US \$1,786,591), which was paid in cash in two installments, plus assumption of liabilities totaling approximately RMB400,000 (approximately US\$48,000). The first cash installment totaling RMB3,000,000.00 (approximately US \$362,000) , was paid on September 18, 2000. The second cash installment of RMB11,000,000.00 (approximately US \$1,376,591) was paid in two parts, on November 22 and November 28, 2000.

The purchase price for the assets of TZF Jiangsu was determined through arms length negotiation with the seller.

The cash purchase price for the assets of TZF Jiangsu was paid on our behalf by Xin Chen, one of the principal shareholders. These payments were part of a total of US\$5,000,000 which Mr. Chen paid or advanced on behalf of the Company during the fiscal year ended December 31, 2000.

The assets of TZF Jiangsu consist primarily of an automated assembly line used for the production of various pharmaceutical products. The Company will continue to use this equipment and factory for the production of pharmaceutical products and will seek to expand and improve the operations.

In addition to payment of the initial purchase price of RMB14,000,000 for purchase of the existing assets of TZF Jiangsu, the Acquisition and Investment Agreement contemplates that during the next three years we will invest an additional sum of RMB14,000,000 in fixed assets, technological improvements, research and development and marketing in order to improve and expand the operations of TZF Jiangsu. In return for the Company's commitment to make this additional capital investment, the seller, The People's Government of JianWu County, JiangSu Province, the People's Republic of China has agreed to grant the Company various incentives, including rent free occupancy of certain new plant space for 50 years, an agreement to refund certain Value Added Tax for 3 years, a 100% exemption from income taxes for three years commencing in 2001, a 50% exemption from income taxes for an additional 3 years thereafter, an exemption from the Industrial and Commercial Administration Charge and other industry fees for one year, and an exemption from a variety of other fees and surcharges during the period that the new plant space is under construction.

Assets and liabilities of TZF Jiangsu at the date of acquisition on December 31, 2000, were as follows:

Assets

Cash and cash equivalents	\$ 1,005,456
Accounts receivable, trade	1,675,847
Accounts receivable, others	701,927
Short-term loans	79,095
Inventories	861,460
Construction in progress	1,918,374
Fixed assets, net of accumulated depreciation	548,421
Fixed assets, other	239,261
Rights of use of land - 50 years	<u>1,239,942</u>
	<u>8,269,783</u>

Liabilities

Accounts payable, trade	913,669
Accounts payable, others	350,001

Taxes payable	389,934
Payroll and payroll deductions payable	94,821
Long-term liabilities	306,138
Bank loans	<u>1,095,526</u>
	<u>3,150,089</u>
Net assets	5,119,694
Gain - Negative goodwill on acquisition added to paid-in capital in these financial statements	<u>3,333,103</u>
Total cash payments on acquisition	<u>\$1,786,591</u>

By an Acquisition and Investment Agreement dated December 31, 2000, the Company completed the purchase of all of the shares of Shenzhen Tianzifu Network Technology Ltd., (“Shenzhen TZF Net”) (formerly Shenzhen Xinhaihu Industry Trading & Development Co., Ltd.), a Chinese corporation. The purchase price was \$3,000,000.

The major businesses of Shenzhen TZF Net are in China and include pharmaceutical businesses, material supply, computer network software and hardware development and related business information consulting.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, T.Z.F. International Herbs Investment Inc., Tianan Investment Limited (and its wholly-owned subsidiary Tianan Pharmacy (Xiamen) Co. Ltd.), TZF International Herbs (Jiangsu) Co. Ltd. and Shenzhen Tianzifu Network Technology Ltd. All intercompany transactions and balances have been eliminated.

Basis of presentation

These consolidated financial statements have been prepared in accordance with Accounting Principles Generally Accepted in the United States (“USGAAP”).

Development stage company

The consolidated financial statements of the Company to December 31, 2001 were prepared in accordance with the provisions of Statement of Financial Accounting Standard No. 7, “Accounting and Reporting by Development Stage Enterprises”, which included cumulative figures for the statement of operations and cash flows from the date of inception on September 15, 1998 to December 31, 2001.

Commencing January 1, 2002, the Company is not considered to still be a development stage company and, accordingly, the figures from date of inception are not disclosed.

Business Combinations

The Company uses the Purchase Method in accounting for its acquisitions.

Goodwill will be subject to review for impairment. This review would be at the lowest reporting level or levels that include the acquired business (i.e., the reporting unit). Goodwill would be considered impaired and subject to write-down if the fair value of the reporting unit's goodwill is less than its carrying amount. The fair value of goodwill would be determined by subtracting the fair value of the recognized net assets of the reporting unit (excluding goodwill) from the fair value of the reporting unit. The amount of the impairment would be the difference between the carrying amount and the fair value of the goodwill.

Use of estimates

The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consists of cash on deposit and highly liquid short-term interest bearing securities with a maturity at the date of purchase of three months or less.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statement at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled as prescribed in FASB Statement No. 109, Accounting for Income Taxes. As changes in tax laws or rate are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Compensated absences

Employees of the corporation are entitled to paid vacations, sick days and other time off depending on job classification, length of service and other factors. It is impractical to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The corporation's policy is to recognize the costs of compensated absences when paid to employees.

Net earnings per share

The Company adopted Statement of Financial Accounting Standards No. 128 that requires the reporting

of both basic and diluted earnings per share. Basic earnings per share is computed by dividing net income available to common shareowners by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. In accordance with FASB 128, any anti-dilution effects on net loss per share are excluded.

Disclosure about fair value of financial instruments

The Company has financial instruments, none of which are held for trading purposes. The Company estimates that the fair value of all financial instruments at December 31, 2001 as defined in FASB 107, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheets. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is recorded on the following rates, based upon the useful life of the assets.

Office equipment	- 20% per annum on the declining balance basis
Leasehold improvement	- allocated on a straight-line basis over the term of lease
Vehicles	- 30% per annum on the declining balance basis
Computer equipment	- 30% per annum on the declining balance basis
Buildings	- 4.75% per annum on the straight-line basis
Mechanical devices	- 19% per annum on the straight-line basis
Electric devices	- 19% per annum on the straight-line basis
Shipping devices	- 19% per annum on the straight-line basis
Other devices	- 19% per annum on the straight-line basis

Long-lived assets

Statement of Financial Accounting Standards No. 142, "Accounting for the Impairment on disposal of Long-Lived Assets" requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset in question may not be recoverable. This standard does not have a material effect on the Company's results of operations, cash flows or financial position in these financial statements.

Foreign currency translation

The functional currency of the parent Company T.Z.F. International Investments, Inc. is the United States Dollar and of T.Z.F. International Herbs Investment Inc. is the Canadian Dollar, Tianan Pharmacy (Xiamen) Co. Ltd, T.Z.F. International Herbs (Jiangsu) Co. Ltd. and Shenzhen Tianzifu Network Technology Ltd. are in Chinese Yuan and the reporting currency on a consolidated basis is the United States Dollar.

The assets, liabilities, and operations of the Company are expressed in the functional currency of the Company in United States Dollars. Operations of the subsidiary, T.Z.F. International Herbs Investment Inc. are in Canadian Dollars and in conformity with US GAAP they are translated into the reporting currency, the United States Dollar.

Monetary assets and liabilities are translated at the current rate of exchange.

The weighted average exchange rate for the period is used to translate revenue, expenses, and gains or losses from the functional currency to the reporting currency.

The gain or loss on translation is reported as a separate component of stockholders' equity and not recognized in net income. Gains or losses on remeasurement are recognized in current net income.

Gains or losses from foreign currency transactions are recognized in current net income.

Fixed assets are measured at historical exchange rates that existed at the time of the transaction.

Depreciation is remeasured at historical exchange rates that existed at the time the underlying related asset was acquired.

An analysis of the changes in the cumulative translation adjustment as disclosed as part of stockholders' equity, is as follows:

	Nine Months Ended <u>September 30,</u>	
	<u>2002</u>	<u>2001</u>
Balance, Beginning of period	\$ 4,987	\$ 4,383
Change during the period	(6,620)	(3,650)
Balance, End of period	<u>\$ (1,633)</u>	<u>\$ 733</u>

The effect of exchange rate changes on cash balances is reported in the statement of cash flows as a separate part of the reconciliation of change in cash and cash equivalents during the period.

Concentration of credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents which are not collateralized. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions.

Inventories

The inventories are recorded at the lower of cost or market. As at September 30, 2002 the inventories total \$1,556,108 (September 30, 2001 - \$2,276,709) (see note 7).

Revenue Recognition

The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, Revenue Recognition in Financial Statements, in December 1999. The SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. During the current year, the Company performed a review of its revenue recognition policies and determined that it is in compliance with SAB 101.

Web Site Development Expenses

Web site development expenses relate to the development of new online services and consist principally of employee compensation, as well as costs for content, facilities and equipment. The consensus in the Financial Accounting Standards Board Emerging Issues Task Force (EITF) Issue No. 00-2, Accounting for Web Site Development Costs, requires that certain costs to develop Web sites be capitalized or expensed, depending on the nature of the costs. Development expenses of \$59,778 have been capitalized and are being amortized over a period of 30 months (note 12).

Shipping and Handling Fees and Costs

In September 2000, the Financial Accounting Standards Board Emerging Issues Task Force (EITF) reached a final consensus on EITF Issue No. 00-10, Accounting for Shipping and Handling Fees and Costs. This consensus requires that all amounts billed to a customer in a sale transaction related to shipping and handling, be classified as revenue. The Company historically has netted shipping charges to customers with shipping and handling costs which are included in operating expenses in the Statements of Operations. With respect to the classification of costs related to shipping and handling incurred by the seller, the EITF determined that the classification of such costs is an accounting policy decision that should be disclosed. The Company adopted the consensus in the Issue in fiscal 2001.

Segmented Information

The Company's identifiable assets as at September 30, 2002 are located in the following countries:

Canada	\$35,482
China	17,686,155
The United States	<u>67,395</u>

\$17,789,032

Note 3. CASH AND CASH EQUIVALENTS - \$473,513

The total for cash and equivalents as at September 30, 2002, is made up as follows:

	<u>TZF US</u> <u>Company</u>	<u>The BC</u> <u>Company</u>	<u>Tian'an</u>	<u>TZF</u> <u>Jiangsu</u>	<u>Shenzhen</u> <u>TZF Net</u>	<u>Total</u>
Petty cash	\$	\$	\$ 87	\$ 10,170	\$ 717	\$ 10,974
Cash in trust		2,769				2,769
Cash in bank	67,395	7,535	303,313	51,457	12,960	442,660
Short-term deposits				17,110		17,110
Total	<u>\$67,395</u>	<u>\$ 10,304</u>	<u>\$303,400</u>	<u>\$ 78,737</u>	<u>\$ 13,677</u>	<u>\$ 473,513</u>

Note 4. ACCOUNTS RECEIVABLE

This balance is as follows:

	<u>TZF US</u> <u>Company</u>	<u>The BC</u> <u>Company</u>	<u>Tian'an</u>	<u>TZF</u> <u>Jiangsu</u>	<u>Shenzhen</u> <u>TZF Net</u>	<u>Total</u>
Accounts receivable, trade	\$	\$	\$341,023	\$1,020,802	\$ 0	\$1,361,825
Accounts receivable, Canadian GST		7,276				7,276
Short-term loans			805,633		410,659	1,216,292
Accounts receivable, other				1,447,539	1,076,270	2,523,809
Total	<u>\$ 0</u>	<u>\$ 7,276</u>	<u>\$1,146,656</u>	<u>\$2,468,341</u>	<u>\$ 1,486,929</u>	<u>\$5,109,202</u>

Note 5. PREPAID EXPENSES AND DEPOSITS

The balance of prepaid expenses and deposits as at September 30, 2002, is as follows:

	<u>The BC</u> <u>Company</u>	<u>Tian'an</u>	<u>Shenzhen</u> <u>TZF Net</u>	<u>Total</u>
Rental deposits	\$3,670	\$	\$ 11,117	\$ 14,787

Prepaid to Beijing Zhong Buo for website development			1,193,847	1,193,847
Prepaid new medicine application fees		379,085		379,085
Total	<u>\$3,670</u>	<u>\$ 379,085</u>	<u>\$1,204,964</u>	<u>\$1,587,719</u>

As at September 30, 2002, Shenzhen TZF Net paid \$1,193,847 to Beijing Zhongbuo Merchants Promotion Internet Co. Ltd. for the setting up of website and computer systems. This project is in progress as at September 30, 2002 and, accordingly, is recorded as a prepaid expense.

Note 6. SUBSCRIPTIONS RECEIVABLE

As at September 11, 2000, Mr. Chung Yiu Chung signed a subscription agreement with the Company whereby he subscribed for 561,798 common shares of the Company at a price of CAD\$1.50 per share, of which, 162,994 common shares were issued and paid. The balance of \$406,434 was unpaid. As at December 31, 2001, the latter unpaid portion of the subscription was cancelled, and issued share capital was reduced.

Note 7. INVENTORIES

The inventories as at September 30, 2002, are made up as follows:

	<u>The BC Company</u>	<u>Tian'an</u>	<u>TZF Jiangsu</u>	<u>Shenzhen TZF Net</u>	<u>Total</u>
Raw materials	\$	\$ 42,922	\$ 54,600	\$	\$ 97,522
Packaging materials		13,524	581,328		594,852
Finished products		251,610	198,194		449,804
Other			<u>268,357</u>	<u>145,573</u>	<u>413,930</u>
Total	<u>\$ 0</u>	<u>\$ 308,056</u>	<u>\$1,102,479</u>	<u>\$145,573</u>	<u>\$1,556,108</u>

Note 8. FIXED ASSETS

The totals for fixed assets and accumulated depreciation as at September 30, 2002, are made up as follows:

	<u>The BC Company</u>	<u>Tian'an</u>	<u>TZF Jiangsu</u>	<u>Shenzhen TZF Net</u>	<u>Total</u>
--	-----------------------	----------------	--------------------	-------------------------	--------------

Cost

Computer equipment	\$ 14,364	\$	\$	\$	\$14,364
Office equipment	14,286				14,286
Vehicles					0
Buildings and improvements		1,312,794			1,312,794
Mechanic devices		321,187			321,187
Shipping devices		21,685			21,685
Electronic devices				100,072	100,072
Other		<u>316,326</u>	<u>2,123,492</u>		<u>2,439,818</u>
Total	<u>28,650</u>	<u>1,971,992</u>	<u>2,123,492</u>	<u>100,072</u>	<u>4,224,206</u>

Accumulated Depreciation

Computer equipment	7,313				7,313
Office equipment	6,233				6,233
Vehicles					0
Buildings and improvements		305,234			305,324
Mechanic devices		177,143			177,143
Shipping devices		19,517			19,517
Electronic devices				29,627	29,627
Other		<u>306,860</u>	<u>211,881</u>		<u>518,741</u>
Total	<u>13,546</u>	<u>808,754</u>	<u>211,881</u>	<u>29,627</u>	<u>1,063,808</u>

Net book value

Computer equipment	7,051				7,051
Office equipment	8,503				8,503

Vehicles					0
Buildings and improvements	1,007,560				1,007,560
Mechanic devices	144,044				144,044
Shipping devices	2,168				2,168
Electronic devices				70,445	70,445
Other	<u>9,466</u>	<u>1,911,611</u>			<u>1,921,077</u>
Total (to Schedule A)	<u>\$ 15,104</u>	<u>\$1,163,238</u>	<u>\$ 1,911,611</u>	<u>\$ 70,445</u>	<u>\$3,160,398</u>

Note 9. FIXED ASSETS - OTHERS

As at September 30, 2002, other fixed assets of \$399,733 (September 30, 2001 - \$49,439) as disclosed in Schedule A, in addition to the above, represent the residual value of fixed assets located at TZF Jiangsu.

Note 10. FIXED ASSETS – CONSTRUCTION IN PROGRESS

The construction in progress of \$1,522,756 as at September 30, 2002, applies to new buildings and related equipment located at TZF Jiangsu and will not be depreciated until the building has been completed and the equipment put into use. Certificate of completion is expected in 2002.

Note 11. GOODWILL

As at September 30, 2002, goodwill of \$1,206,554 is made up as follows:

	<u>Tian'an</u>	<u>Shenzhen TZF Net</u>	<u>Total</u>
Goodwill on acquisitions	\$147,177	\$1,059,377	\$1,206,554

The goodwill will be evaluated at each reporting period as to any possible impairment. The earnings of Tianan justify the goodwill. Shenzhen is expected to attain earnings to continue to justify the amount of goodwill and, accordingly, no adjustment has been made to the goodwill booked for Shenzhen.

Note 12. INTANGIBLE ASSETS - DEFERRED COSTS

As at September 30, 2002, deferred costs of \$1,206,554 are made up as follows:

	<u>Tian'an</u>	<u>Shenzhen TZF Net</u>	<u>Total</u>
--	----------------	-------------------------	--------------

Website development - to be amortized over 30 months	\$	\$59,778	\$59,778
Net product development costs - to be expensed in 2002	<u>33,124</u>		<u>33,124</u>
	<u>33,124</u>	<u>59,788</u>	<u>92,902</u>
Amortization		<u>(11,209)</u>	<u>(11,209)</u>
Net book value (to schedule A)	<u>\$ 33,124</u>	<u>\$ 48,569</u>	<u>\$81,693</u>

Note 13. INTANGIBLE ASSETS - TECHNOLOGY RIGHTS

By agreement dated December 15, 1999, Shenzhen Hengyunda Enterprises Co. Ltd. of P.R. China agreed to sell and assign certain information and rights relating to a series of products known as the Snow Lotus Tea series products to the BC Company.

The BC Company agreed to pay consideration of \$4,038,229 for acquisition of these assets, through the issuance of 6,000,000 shares of its Class B common stock, which were valued for purposes of the acquisition at a price of CAD\$1.00 per share, for total consideration of CAD\$6,000,000 (U.S. \$4,038,229).

Shenzhen Hengyunda Enterprises Co. Ltd. has warranted that there are no charges or encumbrances against the rights being acquired.

This agreement includes the sale, assignment and transfer of all the right, title and interest in and to the Product Information and all the rights to use, exploit, develop or otherwise deal with the Product Information or the Project, including the right to register any Intellectual Property in connection with the Product, the same to be held and enjoyed by the BC Company and its successors and assigns as fully and effectively as the same would have been held and enjoyed by Shenzhen Hengyunda Enterprises Co. Ltd. had this transfer and assignment not been made.

Shenzhen Hengyunda Enterprises Co. Ltd. further agrees to execute and deliver all such documents and further assurances as may be necessary or desirable to give effect to the sale and assignment.

As at July 14, 2002 the technology rights have been reevaluated by management, resulting in a writedown of \$3,483,871 (CAD \$4,500,000) and a return to treasury of 5,400,000 Class B Common Shares previously issued for this technology. The vendors of the technology are to retain 600,000 Class B Common Shares.

Note 14. ACCOUNTS PAYABLE AND ACCRUED

Details of the total of accounts payable and accrued as at September 30, 2002, are as follows:

	<u>TZF US Company</u>	<u>The BC Company</u>	<u>Tian'an</u>	<u>TZF Jiangsu</u>	<u>Shenzhen TZF Net</u>	<u>Total</u>
A/P, trade			\$ 30,060	\$1,081,134	\$ 20,724	\$1,131,918
Accrued payroll			7,877	13,694	24,069	45,640
Taxes payable			31,182	105,337	120,056	256,575
Other payables			<u>43,480</u>	<u>1,089,960</u>	<u>1,132,439</u>	<u>2,265,879</u>
Total			<u>\$ 112,599</u>	<u>\$2,290,125</u>	<u>\$1,297,288</u>	<u>\$3,700,012</u>

Note 15. MANAGEMENT FEES PAYABLE

There are no management fees incurred for the nine month period ended September 30, 2002.

.

Note 16. RELATED PARTY TRANSACTIONS

a) The amount of \$537,479 represents loans to the Company by related parties as at September 30, 2002, is unsecured, non-interest bearing, with no specific terms of repayment.

b) The principal shareholders offered to all warrant holders to exchange their warrants for shares held by the principal shareholders pursuant to such ratio so that, with the completion of the warrant/share exchange, the per share cost of the share/warrant held by the minority shareholder effectively stands at CAD\$0.75 per share. The share/warrant change became effective as of December 17, 2000.

c) During the fiscal year ended December 31, 2000, Mr. Xin Chen, Director and Chairman of Board of Directors of the Company, advanced a total of approximately \$5,500,000 on behalf of the Company. These funds were used in part for purchase of the assets of TZF Jiangsu, and in part for purchase of all of the issued and outstanding stock of Tian'an Investments Limited, a British Virgin Islands Corporation (which was completed on December 21, 2000) and part of the payment on the acquisition of 100% issued and outstanding shares of Shenzhen T.Z.F. Network Technologies Co., Ltd.

On December 28, 2000, the Company signed a Debt Settlement Agreement with Mr. Xin Chen. Mr. Chen agreed to take 10,000,000 common shares of the Company at a price of CAD\$0.75 (US\$0.50) per share to repay \$5,000,000 of his loan. These shares have warrants attached entitling the holder to purchase additional 10,000,000 common shares of the Company at a price of CAD\$1.50 per share until December 28, 2001 (expired), and thereafter, at a price of CAD\$2.50 per share until December 28, 2002.

Note 17. BANK LOANS

Details of bank loans as at September 30, 2002, are as follows:

a) TZF Jiangsu

As at September 30, 2002, TZF Jiangsu has bank loans, as follows, secured by its assets:

	<u>Period of Loan</u>	<u>Principal</u> Chinese <u>RMB</u>	<u>Principal</u> Equivalent to <u>US \$</u>	<u>Interest</u> <u>Rate/Monthly</u>
Industries and Commerce Bank of Jianhu, China	8/1/02 - 7/31/03	<u>9,060,000</u>	<u>1,095,526</u>	5.86%

b) TZF Tianan

As at September 30, 2002, TZF Tianan has bank loans, as follows, secured by its assets:

	<u>Period of Loan</u>	<u>Principal</u> Chinese <u>RMB</u>	<u>Principal</u> Equivalent to <u>US \$</u>	<u>Interest</u> <u>Rate/Monthly</u>
Fujian Xingye Bank, Xiamen, China	7/25/02 - 7/24/02	<u>4,500,000</u>	<u>544,135</u>	0.48675%

Management of the Company proposes to apply for renewal of these loans prior to their due date.

Summary of the above Bank loans

	<u>Tianan</u>	<u>TZF Jiangsu</u>	<u>Total</u>
Fujian Xingye Bank, Xiamen, China	\$ 544,135	\$	\$ 544,135
Industries and Commerce Bank of Jianhu, China		<u>\$1,095,526</u>	<u>\$1,639,661</u>
Total	<u>\$ 544,135</u>	<u>\$1,095,526</u>	<u>\$1,639,661</u>

Note 18. LONG-TERM LIABILITIES

a) The long-term debt of \$177,509 represents unsecured, non-interest bearing long-term accounts payables owing by Second Pharmacy, with payment deferred.

b) The deferred liabilities of \$212,562 for pensions apply to Tianan.

Note 19. CAPITAL STOCK

Outstanding Warrants at September 30, 2002

290,007	warrants to purchase 290,007 common shares exercisable at CAD\$1.50 per share until December 17, 2002
<u>10,000,000</u>	warrants to purchase 10,000,000 common shares exercisable at CAD\$2.50 per shares until December 28, 2002.
<u>10,290,007</u>	

Note 20. INCOME TAXES

a) The most recent Federal Income Tax filing for the Company for the US was for the year ended December 31, 2001, disclosing no income taxes payable to the US Internal Revenue Service.

b) The BC Company has filed Federal Income Tax Returns for the years ended December 31, 1999, 2000 and 2001. To December 31, 2001, the BC Company had a total loss of CAD\$1,203 (equivalent to US\$776). No provision for Canadian Income Taxes is provided for in these consolidated financial statements as the profit is reduced by the losses brought forward and other costs of the Company.

Note 21. LEASE OBLIGATIONS

Lease of Premises

The Company entered into a lease for offices with Burrard International Holdings, Inc. for two years for monthly rent and costs of CAD \$3,059, that commenced on September 1, 2002.

The last month's rent of CAD \$ 5,690 is due at the time of signing. This amount has been paid and is recorded as a prepaid expense and deposit as at September 30, 2002.

Note 22. PENSION AND EMPLOYMENT LIABILITIES

The Company has liabilities which are deferred as at September 30, 2002, for pension, post-employment benefits or post-retirement benefits in Tianan in the amount of \$212,562. This liability is unchanged from December 21, 2000. The parent company and other subsidiary companies, (except for Tianan) do not have any liabilities for pensions and related costs.

Note 23. DISTRIBUTORSHIP AGREEMENTS

The Company and/or its subsidiaries entered into various distributorship agreements with independent third parties to market products of the Company and its subsidiaries.

Note 24. LAWSUIT

Expediter Sales Ltd. (“Expediter”) v. the BC Company

There is a claim filed against the BC Company by Expediter alleging a breach of contract and misrepresentation. Expediter is seeking damages for alleged loss of profits, loss of business and goodwill, misrepresentation, set-up expenses and the alleged wrongful use of Expediter’s name, and an injunction to prevent the BC Company from selling an herbal tea in Canada. The BC Company terminated the contract of Expediter for non-performance and has, accordingly, counterclaimed against Expediter for outstanding debts unpaid by Expediter. No provision has been made in these financial statements for any potential costs or contingent assets relating to this matter, as the results of the claim and counterclaim are not determinable at this time.

Note 25. SALES IN CANADA

The Company maintains a products analysis and quality control system in Canada, for its products to be distributed, in order to ensure that its products conform to relevant regulatory and health requirements. Where any products are found not to meet the regulatory requirements, the Company will immediately take such measures as necessary, or cause such measures to be taken, so that the said regulatory requirements are complied with.

Note 26. OPERATIONS OF SUBSIDIARY COMPANIES

Details of the operating figures for the Company and the four subsidiary companies for the nine months ended September 30, 2002, extracted from the applicable financial statements of those companies, are as follows:

	<u>TZF US</u> <u>Company</u>	<u>The BC</u> <u>Company</u>	<u>Tian’an</u>	<u>TZF</u> <u>Jiangsu</u>	<u>Shenzhen</u> <u>TZF Net</u>	<u>Total</u>
Revenue						
Sales	\$	\$ 6,429	\$ 701,524	\$2,137,040	\$ 69,321	\$2,914,314
Cost of sales		<u>\$ 22,208</u>	<u>296,301</u>	<u>1,391,177</u>	<u>37,658</u>	<u>1,747,344</u>
Gross profit		(15,779)	405,223	745,863	31,663	1,166,970
Other income (expense)		<u>(14,186)</u>	<u>11,470</u>			<u>(2,716)</u>

		<u>(29,965)</u>	<u>(416,693)</u>	<u>745,863</u>	<u>31,663</u>	<u>1,164,254</u>
Selling expenses			96,084	314,971	66,370	477,425
Administrative costs	7,548	163,061	115,289	143,867	111,653	541,958
Depreciation and amortization		7,905	110,088	199,803	19,750	337,546
Loss on disposition of capital assets		26,994				26,994
Bad debts	<u>8,826</u>	<u>592,582</u>				<u>601,408</u>
	16,374	<u>790,542</u>	<u>322,001</u>	<u>658,641</u>	<u>193,773</u>	<u>1,985,331</u>
Profit (Loss) before income taxes	(16,374)	<u>(820,507)</u>	<u>94,692</u>	<u>87,222</u>	<u>(166,110)</u>	<u>(821,077)</u>
Income taxes			<u>5,497</u>			<u>5,497</u>
Net profit (loss) for the period	<u>\$ (16,374)</u>	<u>\$ (820,507)</u>	<u>\$89,195</u>	<u>\$87,222</u>	<u>\$ (166,110)</u>	<u>\$ (826,574)</u>

Note 27 DISTRIBUTION AGREEMENTS

a) By agreement dated December 15, 2000, effective January 1, 2001, Trophic Canada Ltd. (“the Supplier”), granted TZF International Investments, Inc. (“TZF”) the exclusive right to promote, distribute, and sell the supplier’s products within the “Territory” of China, which includes Hong Kong, SAR, for a period of five years. Continuation of this exclusive right is contingent upon meeting or exceeding the purchase of products for a minimum of CAD\$50,000 within the first distribution year, a minimum of CAD\$200,000 within the second distribution year, and increases of approximately 20% in each of the subsequent distribution years.

The supplier may terminate the distribution agreement if TZF breaches any terms of the agreement, including but not restricted to the annual sales requirements, if any breaches are not remedied within three months after written notice.

TZF cannot assign the agreement or subcontract its obligations under the agreement without the consent in writing of the supplier. The supplier is an arms length party unrelated to TZF.

b) By agreement dated June 22, 2001, effective June 22, 2001, Puresource Inc. (“the Supplier”) granted TZF International Investments, Inc. (“TZF”) the exclusive right to promote, distribute, and sell the supplier’s products within the “Territory” of China, which includes Hong Kong, SAR, for a period of five years. Continuation of this exclusive right is contingent upon meeting or exceeding the purchase of products for a minimum of US\$20,000 within 12 months after the initial Product has been approved for sale in the

Territory by the appropriate Government department.

The supplier may terminate the distribution agreement if TZF breaches any terms of the agreement, including but not restricted to the annual sales requirements, if any breaches are not remedied within 45 days after written notice.

This agreement shall be renewed for additional successive renewal periods of five year terms upon written notice by either of the parties, delivered at least 60 days prior to the expiration of the preceding period, and in any case the Distributor will always have the first choice of renewal.

c) By agreement dated July 25, 2001 effective July 25, 2001, Flora Manufacturing and Distributing Ltd. (“the Supplier”), granted TZF International Investments, Inc. (“TZF”) the exclusive right to promote, distribute, and sell the supplier’s products within the “Territory” of the Peoples’ Republic of China (excluding Hong Kong and Macao) for a period of three years. Continuation of this exclusive right is contingent upon meeting or exceeding the purchase of products for a minimum of US\$50,000 within 12 months after the initial Product has been approved for sale in the Territory by the appropriate government department and in the next two years thereafter or US\$200,000 in the second year and US\$400,000 in the third year.

The supplier may terminate the distribution agreement if TZF breaches any terms of the agreement, including but not restricted to the annual sales requirements, if any breaches are not remedied within three months after written notice.

This agreement shall be renewed for additional successive renewal periods of three year terms upon written notice by either of the parties, delivered at least 60 days prior to the expiration of the preceding period and, in any case, the Distributor will always have the first choice of renewal.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward Looking Statements.

Certain statements in this report, including statements in the following discussion which are not statements of historical fact, are what are known as “forward looking statements,” which are basically statements about the future, and which for that reason, involve risk and uncertainty, since no one can accurately predict the future. Words such as “plans,” “intends,” “will,” “hopes,” “seeks,” “anticipates,” “expects,” “goal” and “objective” often identify such forward looking statements, but are not the only indication that a statement is a forward looking statement. Such forward looking statements include statements of our plans and objectives with respect to the present and future operations of the Company, and statements which express or imply that such present and future operations will or may produce revenues, income or profits. Numerous factors and future events could cause the Company to change such plans and objectives, or fail to successfully implement such plans or achieve such objectives, or cause such present and future operations

to fail to produce revenues, income or profits. Therefore, the reader is advised that the following discussion should be considered in light of the discussion of risks and other factors contained in this Form 10QSB and in the Company's other filings with the Securities and Exchange Commission, and that no statements contained in the following discussion or in this Form 10QSB should be construed as a guarantee or assurance of future performance or future results.

The following discussion and analysis should be read in combination with our consolidated financial statements included in Part I, Item 1 of this Form.

We are a manufacturer and distributor of Chinese herbal medicine products in China.

In this section we discuss our results of operations on a consolidated basis. We also discuss our liquidity, and capital resources.

1. Financial Condition

	<u>September 30,</u>	
	<u>2002</u>	<u>2001</u>
Current assets	\$ 8,726,542	\$12,068,276
Property, plant and equipment	7,219,885	6,454,576
Goodwill, intangible assets and other	<u>1,842,605</u>	<u>5,300,097</u>
Consolidated assets	<u>\$17,789,032</u>	<u>\$23,822,949</u>

TZF's consolidated assets decreased \$6,033,917 from \$23,822,949 at September 30, 2001 to \$17,789,032 at September 30, 2002, reflecting mainly a decrease in current assets of \$3,341,734 addition to property plant and equipment of \$765,309 and a decrease in the net amount of goodwill and intangible assets of \$3,457,492, the latter mainly by way of cancellation of common shares issued of \$3,483,871.

The cancellation of 5,400,000 common shares as at July 14, 2002 resulted in a reduction of capital stock of \$3,483,871 and a corresponding reduction in intangible assets for the quarter ended September 30, 2002 of \$3,483,871.

The Company has deferred liabilities of \$212,562 in its Tianan subsidiary for pension and related benefits that were accumulated to December 21, 2000, the date of acquisition, and unchanged up to September 30, 2002. There are no additional unfunded pension and related benefit liabilities as of September 30, 2002.

The TZF debt-to-total-capital ratio is 35% at September 30, 2002 versus 28% at September 30, 2001, assuming that the deferred liabilities are treated as debt. Accordingly, the debt-to-total-capital ratio is calculated defining “debt” as short term borrowing (current liabilities), long term debt and deferred liabilities. Total capital is defined as debt, plus stockholders’ equity.

2. Liquidity and capital resources

	<u>September 30,</u>	
	<u>2002</u>	<u>2001</u>
Working capital	<u>\$ 2,849,352</u>	<u>\$ 827,802</u>

Working capital, represented by current assets less current liabilities, decreased in the third quarter of 2002 by \$410,276 as compared to an increase of \$471,296 in the third quarter of 2001. The TZF working capital ratio is 1.5:1 at September 30, 2002 and 2.0:1 at September 30, 2001.

The decrease in working capital in the third quarter of 2002 is due mainly to expenditures on property, plant and equipment of \$585,274 and a cash used in operating activities of \$99,217.

The quick ratio represented by the total of cash and cash equivalents and accounts receivable, versus total current liabilities was 0.95:1 at September 30, 2002 and 1.1:1 at September 30, 2001.

3. Operating activities

	<u>Quarter Ended September 30,</u>	
	<u>2002</u>	<u>2001</u>
Cash flows derived from (used in) operating activities	<u>\$ (99,217)</u>	<u>\$ 827,802</u>

Cash flow for the quarter ended September 30, 2002 is used mainly in the acquisition of fixed assets of \$585,274 and reduction in debt of \$59,772. The loan from related parties decreased by \$23,073 during the quarter. Cash increased by \$214,322 during the quarter, from \$259,191 at June 30, 2002 to \$473,513 at September 30, 2002 by changes as disclosed in the cash flow statement for the quarter ended September 30, 2002.

Cash flow for the comparative quarter ended September 30, 2001 was \$827,802 from operations, \$285,793 used for investing activities, and \$1,044,570 from financing activities. Cash decreased by \$502,561 during the comparative quarter ended September 30, 2001, from \$1,633,610 at June 30, 2001, to \$1,131,049 at September 30, 2001.

The Company has four subsidiary companies. Details of the consolidated operating figures for the Company and the four subsidiary companies for the nine months ended September 30, 2002, compared to the nine months ended September 30, 2001 extracted from the applicable financial statements of those companies, are as follows:

Quarter #3 - Nine months ended September 30, 2002

	<u>TZF US Company</u>	<u>The BC Company</u>	<u>Tian'an</u>	<u>TZF Jiangsu</u>	<u>Shenzhen TZF Net</u>	<u>Total</u>
Revenue						
Sales	\$	\$ 6,429	\$ 701,524	\$2,137,040	\$ 69,321	\$2,914,314
Cost of sales		\$ <u>22,208</u>	<u>296,301</u>	<u>1,391,177</u>	<u>37,658</u>	<u>1,747,344</u>
Gross profit		(15,779)	405,223	745,863	31,663	1,166,970
Other income (expense)		<u>(14,186)</u>	<u>11,470</u>			<u>(2,716)</u>
		<u>(29,965)</u>	<u>(416,693)</u>	<u>745,863</u>	<u>31,663</u>	<u>1,164,254</u>
Selling expenses			98,064	314,971	66,370	477,425
Administrative costs	7,548	163,061	115,829	143,867	111,653	541,958
Depreciation and amortization		7,905	110,088	199,803	19,750	337,546
Loss on disposition of capital assets		26,994				26,994
Bad debts	<u>8,826</u>	<u>592,582</u>				<u>601,408</u>
	<u>16,374</u>	<u>790,542</u>	<u>322,001</u>	<u>658,641</u>	<u>197,773</u>	<u>1,985,331</u>
Profit (Loss) before income taxes	(16,374)	<u>(820,507)</u>	<u>94,692</u>	<u>87,222</u>	<u>(166,110)</u>	<u>(821,077)</u>
Income taxes			<u>5,497</u>			<u>5,497</u>
Net profit (loss) for the period	<u>\$ (16,374)</u>	<u>\$(820,507)</u>	<u>\$ 89,195</u>	<u>\$ 87,222</u>	<u>\$(166,110)</u>	<u>\$(826,574)</u>

Quarter #3 - Nine months ended September 30, 2001

	<u>TZF US Company</u>	<u>The BC Company</u>	<u>Tian'an</u>	<u>TZF JiangSu</u>	<u>Shenzhen TZF Net</u>	<u>Total</u>
--	---------------------------	---------------------------	----------------	--------------------	-----------------------------	--------------

Revenue						
Sales	\$146,234	\$1,206,678	\$ 766,786	\$ 1,253,490	\$5,762,634	\$9,135,822
Cost of sales	<u>38,056</u>	<u>683,343</u>	<u>355,167</u>	<u>821,812</u>	<u>4,533,903</u>	<u>6,432,281</u>
Gross profit	108,178	523,335	411,619	431,678	1,228,731	2,703,541
Other income	<u>93</u>	<u>2,305</u>	<u>69,504</u>	<u>121,827</u>	<u>105,504</u>	<u>299,233</u>
	<u>108,271</u>	<u>525,640</u>	<u>481,123</u>	<u>553,505</u>	<u>1,334,235</u>	<u>3,002,774</u>
Selling expenses		16,509	69,004	143,295	88,356	317,164
	<u>108,248</u>	<u>509,130</u>	<u>296,513</u>	<u>251,486</u>	<u>809,226</u>	<u>1,974,603</u>
Administrative costs	74,495	87,783	121,872	210,200	157,429	651,779
Amortization of goodwill			5,520		39,726	45,246
Depreciation		<u>14,853</u>	<u>109,859</u>		<u>5,467</u>	<u>130,179</u>
	<u>74,495</u>	<u>119,145</u>	<u>306,225</u>	<u>353,495</u>	<u>290,978</u>	<u>1,144,368</u>
	33,776	406,495	174,868	200,010	1,043,257	1,858,406
Profit before						
Income taxes			<u>27,061</u>		<u>319,417</u>	<u>346,478</u>
Net profit for the period	33,776	406,495	147,807	200,010	723,840	1,511,928
Minority Interest					<u>36,129</u>	
Net Profit	<u>\$ 33,776</u>	<u>\$406,495</u>	<u>\$ 147,807</u>	<u>\$200,010</u>	<u>\$657,450</u>	<u>\$1,445,538</u>

Consolidated Net Profit

The consolidated net loss was \$223,285 for the quarter ended September 30, 2002 versus a net loss of \$474,746 for the quarter ended September 30, 2001.

Consolidated Revenue

Sales decreased to \$842,645 for the quarter ended September 30, 2002, a reduction of approximately 72% versus sales of \$3,037,899 for the quarter ended September 30, 2001. Gross profit, as a percentage of sales (excluding other income) was 38% for the quarter ended September 30, 2002 versus 37% for the quarter ended September 30, 2001.

Goodwill and intangible assets

The goodwill will be evaluated on a continuous basis as to any possible impairment. In the opinion of management, the operations of Tianan justify the goodwill of \$147,177. Shenzhen is expected by management to attain earnings to continue to justify goodwill of Shenzhen of \$1,059,377. Other intangible assets, represented by deferred costs and technology rights, that total \$636,051, will also continue be evaluated periodically, in subsequent reporting periods. During the quarter ended September 30, 2002, the management has decided to reduce the Company's total capital issued by \$3,483,871 by cancellation of 5,400,000 common shares previously issued for intangible assets, that cost \$3,483,871; the intangible assets have been reduced by this amount. The Directors' Resolution canceling these shares has been signed and is in the process of execution

5. Investing activities

	<u>Quarter Ended September 30,</u>	
	<u>2002</u>	<u>2001</u>
Cash flows provided by (used for) investing activities	<u>\$ (585,724)</u>	<u>\$ (1,044,570)</u>

Funds were invested in the purchase of fixed assets of \$585,724 for the quarter ended September 30, 2002, and \$ 66,938 for the quarter ended September 30, 2001.

6. Financing activities

	<u>Quarter Ended September 30,</u>	
	<u>2002</u>	<u>2001</u>
Cash flows provided by (used for) financing activities	<u>\$ 899,263</u>	<u>\$ (285,793)</u>

Financing activities for the quarter ended September 30, 2002, reflect mainly the increase in bank loan by

\$604,595. Financing activities for the quarter ended September 30, 2001 reflect mainly a decrease in management fees of \$224,538 and a corresponding reduction in management fees payable.

7. Capital requirements

TZF has current (secured) bank loans of \$1,639,661 at September 30, 2002 versus \$1,968,561 at September 30, 2001.

TZF JiangSu property, plant, and equipment is still in progress at September 30, 2002. Certificate of Completion of Construction is expected by the end of 2002.

At September 30, 2002 TZF management expects no further major capital expenditures to be incurred for the balance of 2002.

ITEM 3. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer (or those persons performing similar functions), after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of a date within 90 days before the filing date of this quarterly report (the "Evaluation Date"), have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the Evaluation Date.

PART II

ITEM 1. LEGAL PROCEEDINGS

Expediter Sales Ltd. ("Expediter") v. the BC Company

There is a claim filed against the BC Company by Expediter alleging a breach of contract and misrepresentation. Expediter is seeking damages for alleged loss of profits, loss of business and goodwill, misrepresentation, set-up expenses and the alleged wrongful use of Expediter's name, and an injunction to prevent the BC Company from selling an herbal tea in Canada. The BC Company terminated the contract of Expediter for non-performance and has, accordingly, counterclaimed against Expediter for outstanding debts unpaid by Expediter. No provision has been made in these financial statements for any potential costs or contingent assets relating to this matter as the results of the claim and counterclaim are not determinable at this time.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On August 19, 2002, an annual shareholders' meeting was held to elect the Board of Directors. The Company did not solicit proxies, and the board of directors, as previously reported, was re-elected in its entirety. In addition to the five existing directors, a new sixth director, Mr. Hong (Henry) Sun, was elected. All shares represented at the meeting voted in favor of his election. Shareholders voted to ratify the appointment of Moen and Company as the Company's auditors, and voted to approve the Stock Option Plan approved by the Board of Directors. 30,957,386 or approximately 87% of all the outstanding shares of the company were represented at the meeting. One proxy for a shareholder voted against adoption of the Stock Option Plan, and one person present at the meeting who claimed to have a power of attorney from a shareholder voted against ratification of the appointment of the auditor. Otherwise, the votes for approval of the Stock Option Plan and ratification of appointment of the auditor were unanimous.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

- (a) Exhibits 99.1 and 99.2, CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002, are filed herewith.
- (b) No reports on Form 8-K were filed during the quarter ended September 30, 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

T.Z.F. INTERNATIONAL INVESTMENTS, INC.

By: /S/ CHUNG YU

Chung Yu, President, Chief Executive Officer, and a Director

By: /S/ XIN CHEN

Xin Chen, Chairman of the Board

By: /S/ HONG LI

Hong Li, a Director

By: /S/ CHUN SHENG GUO

Chun Sheng Guo, a Director

By: /S/ QING LIU

Qing Liu, Vice President and a Director

By: /S/ HONG SUN

Hong Sun, Director

Date: November 14, 2002

Exhibit 99.1

T.Z.F. INTERNATIONAL INVESTMENTS, INC.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Chung Yu, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of T.Z.F. International Investments, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal

controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By:/S/ CHUNG YU

Date: November 14, 2002

Chung Yu, President, Chief Executive Officer, and a Director

T.Z.F. INTERNATIONAL INVESTMENTS, INC.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Qing Liu, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of T.Z.F. International Investments, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal

controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /S/ QING LIU

Date: November 14, 2002

Qing Liu, Vice President and a Director